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Report on the activities of the Office of Internal Oversight Services

Comprehensive audit of the capital master plan

Report of the Office of Internal Oversight Services

Summary

Pursuant to paragraph 15 of General Assembly resolution 62/87, the Office of Internal Oversight Services (OIOS) has conducted a comprehensive audit of the capital master plan.

The scope of this comprehensive audit focused on the structure of the Office of the Capital Master Plan, compliance with United Nations regulations and rules on procurement and contracting, adherence to the terms of contracts, the internal controls and processes in place to properly manage the project, and other high-risk areas.

The General Assembly requested OIOS to ensure effective audit coverage of the capital master plan and to submit to it all oversight reports related to its implementation. The OIOS strategy to provide effective audit coverage of the capital master plan is outlined in section III of the present report.

The audit identifies the main risks to the capital master plan as: possible delays resulting from procedural inflexibilities; cost increases due to changes to strategy and scope; and inadequate budgetary provision for associated costs.

Overall, OIOS found that many of the activities of the Office of the Capital Master Plan were adequately controlled. For example, the Office has the necessary skills to perform the diverse functions that are necessary, but it is not overstaffed. Also, it is clear that substantial efforts have been made to develop and apply suitable project management procedures.

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OIOS identified some areas in which controls could be improved and has made recommendations to strengthen procedures and contribute to efficiencies. The most important of the recommendations relates to avoiding delays by streamlining procurement procedures for contractual amendments, that is, giving the Executive Director the authority to spend up to a pre-approved contingency sum for each guaranteed maximum price contract. OIOS recognizes the need to establish adequate controls for such a procedure, and therefore recommends that a committee be established to carry out an ex post facto review of contractual amendments and change orders over $200,000.

Associated costs are those costs not budgeted or managed by the Office of the Capital Master Plan. It is estimated that associated costs related to the capital master plan for the period 2008-2013 amount to approximately $194 million. There is a need to identify and monitor all associated costs to ensure that adequate funding continues to be available for the duration of the capital master plan. It is also necessary to determine which associated costs should be attributed to the capital master plan project, as opposed to those costs which should be funded from regular departmental budgets.

Recommendations are made with regard to succession planning, management coordination, delegation of procurement authority, associated costs, performance targets and stakeholder management.

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I. Introduction

1. The General Assembly, in its resolution 62/87 of 10 December 2007, requested the Secretary-General to entrust OIOS to conduct a comprehensive review focusing, inter alia, on the structure of the Office of the Capital Master Plan. In response, OIOS undertook a review of the structure of the Office, compliance with United Nations regulations and rules on procurement and contracting, adherence to the terms of contracts, the internal controls and processes in place to properly manage the project, and other high-risk areas.

2. The capital master plan has existed since 8 February 2000, when the General Assembly appropriated $8 million for the preparation of a comprehensive design plan and detailed cost analysis. The current budget is $1.877 billion. There have been a number of changes of strategy and it is now planned to proceed with accelerated strategy IV, in accordance with General Assembly resolution 62/87. This strategy requires that most of the United Nations employees currently in the Secretariat building move to off-site swing space until renovation works are completed by mid-2013.

3. OIOS conducted a risk assessment of the Office of the Capital Master Plan in early 2008. A risk-based audit approach capitalizing on this prior work was adopted in the conduct of the audit. Further information on the risk assessment of the capital master plan is provided in section III below.

4. OIOS analysed documentation available in the Secretariat. Senior members of the capital master plan team were interviewed, and the organization and governance processes were reviewed to identify whether omissions, skills shortages or limited resources might impact on the delivery of capital master plan objectives. Senior staff outside the capital master plan team whose organizational roles impact the project delivery were also consulted. OIOS also reviewed a sample of the capital master plan procurement cases handled by the Procurement Division. The comments of management were taken into account in the preparation of the present report and are shown in italics.

II. Findings

A. Organization and structure of the Office of the Capital Master Plan

1. Staffing and available skills

5. The Office of the Capital Master Plan is headed by an Executive Director who was appointed at the end of July 2007. This was after a period of more than one year when the post had been unfilled at the Assistant Secretary-General level. Officials interviewed by OIOS noted a positive effect from the appointment, and the position is seen as important to the success of the plan. There is a risk that the outcome of the capital master plan could be adversely affected if the Executive Director did not remain in the post until the conclusion of the project. Preparation of a formal succession plan would help to mitigate this risk.

6. Other key positions in the Office of the Capital Master Plan include the Programme Director, the Chief of Design and Construction, and the Chief of

Administration and Communication. The post of Programme Director is currently vacant and will be filled by the current Director of the Facilities and Commercial Services Division, Department of Management. The Programme Director will then report directly to the Executive Director. The Chief of Design and Construction and the Chief of Administration and Communication will report to the new Programme Director.

7. The Office of the Capital Master Plan has 19 authorized temporary positions: 10 at the Professional level and 9 at the General Service level. All 19 temporary positions had been filled at the time of the audit. The capital master plan budget also funds 10 positions in other departments supporting capital master plan activities, including the Office of Legal Affairs, the Department of Safety and Security, the Information Technology Services Division and Procurement Division of the Office of Central Support Services, and OIOS.

8. The United Nations contracts consultants to provide services, including project and construction management, design, security and relocation. The consultants play an important role in providing skills and staff resources that would not otherwise be available. As at the end of April 2008, approximately $135.5 million had been committed to consultancy services. Of this total, about $77 million was committed to design consultants, $49.1 million to project and construction management consultants, and $9.4 million to other consultancy services.

9. OIOS is of the opinion that all required skills exist in the Office of the Capital Master Plan and that the Office is not overstaffed. The necessary skills comprise project management, design and construction, finance and cost control, legal, procurement, administration and scheduling. As the construction phase of the capital master plan advances, the demands on some staff members will increase. Some flexibility in providing resources can be arranged by utilizing additional staff from the programme management consultancy on a short-term basis, if necessary.

10. The United Nations has also selected Skanska USA Building Inc., a subsidiary of Skanska AB, Stockholm, as pre-construction services manager for the pre-construction phase of the capital master plan. Skanska will continue in the role of construction manager during the construction phase, as determined by the United Nations. The roles of pre-construction services manager and construction manager have been specified in detail in two respective agreements between the United Nations and Skanska. In simplified terms, the pre-construction role of Skanska is to offer support and advice with regard to constructability of design, sequencing and scheduling, procurement, value engineering, estimating, labour, logistics and procedures. As construction proceeds, Skanska will organize and direct the complete construction of work parcels in accordance with guaranteed maximum prices (see paras. 20-21 below).

2. Potential for improving coordination

11. There is a risk of delays when a number of individuals with differing skills are tasked to work as a team on a major construction project, such as the capital master plan. The Office of the Capital Master Plan has taken steps to counter this risk by arranging for staff from the Procurement Division and the Office of Legal Affairs to be seconded full time to the capital master plan. This has enhanced the effectiveness of the team. For example, procurement officers attend the weekly staff and coordination meetings. However, since work requirements are not always well

communicated, there are still occasions when the procurement staff have little visibility of their forthcoming workload and the demands that will be made upon them from week to week. This limits the ability of the procurement staff to plan ahead and take a more strategic view.

12. It is important that the Controller be kept fully briefed of the financial position of the capital master plan, so the Office of the Capital Master Plan has arranged for staff of the Office of Programme Planning, Budget and Accounts to be briefed each month by the Chief of Administration and Communication and the Finance and Budget Officer. It would be beneficial if a member of the Office of Programme Planning, Budget and Accounts also attended the monthly meetings held by the Office of the Capital Master Plan to discuss the status reports prepared by the programme management consultants. *The Office of Programme Planning, Budget and Accounts reported that, since the preparation of the present report, it has been agreed that it be represented at the monthly meetings.*

B. Decision-making: a need for improving justifications for change

13. The complexity and planning of a major construction project over a number of years means that sometimes changes have to be made to react to a dynamic environment. The capital master plan has been subjected to a number of changes, partly because of the lengthy preparation time, changes in leadership and in scope, and also in reaction to market forces. Often, major changes have led to a succession of more minor changes. Examples include the succession of decisions changing office space for Professional staff from predominantly open plan to individual offices, and back again to open plan. There have been changes in scope because of revisions to security and sustainability requirements, and value engineering.

14. Radical changes have occurred to the strategy of how to phase the works and the consequential staff movement into swing space. On 10 December 2007, the General Assembly adopted resolution 62/87, in which it endorsed the accelerated strategy IV for completing the project over a shorter timespan. This change to the accelerated strategy came soon after the appointment of the Executive Director and the selection of the pre-construction services manager. OIOS is of the opinion that this serves to reinforce the need for continuity of leadership and succession planning within the Office of the Capital Master Plan.

15. Examination of a sample of procurement files showed that changes in strategy have resulted in costs as well as benefits. It is not always possible to take decisions on the basis of complete knowledge, because the dynamics are in constant flow. To put this in context, as at the end of April 2008, over 130 contractual amendments had been issued and many of them required the design consultants to adjust their schedules and designs to take account of new developments. Further contractual amendments are in the pipeline.

16. It is difficult in the time available to capture all of the implications of changes and contractual amendments in terms of quantified costs and benefits. Delay is costly, and this must be taken into consideration so that decision-making is timely. However, OIOS is of the opinion that the information presented to decision makers in some instances could have been more comprehensive when justifying recommended courses of action. An example of this was the justification provided for the single-phase accelerated strategy. The projected increase in professional fees

for redesign associated with this strategy did not include additional changes in scope for value engineering, and there was insufficient provision for costs related to swing space.

17. In view of the above, OIOS is of the opinion that the Executive Director of the Office of the Capital Master Plan, with the support of other major stakeholders, should make a concerted effort to keep changes in strategy and scope to a minimum. The consequences of any further changes in project strategy and scope, including the related contractual amendments, also need to be identified and justified using the best available cost-benefit estimates.

C. Compliance with the United Nations regulations and rules on procurement and contracting

18. At United Nations Headquarters, the procurement authority currently resides, as delegated from the Under-Secretary-General for Management through the Controller, with the Procurement Division. No other office within the Secretariat is authorized to purchase, commit the United Nations to contractual obligations, or authorize, change or amend any contract or purchase order, unless an exception is specifically granted in writing. This is in keeping with the general principle of segregating procurement duties from requisitioning staff.

1. Contracts used in the capital master plan

19. Until the present time, the procurement of consultancies for the capital master plan has been undertaken using United Nations procedures and standard types of contract, except for the pre-construction and construction manager agreements which were specifically developed based on commercial templates of contracts used in the United States of America. The United Nations is a named party to these contracts.

20. As the construction phase gets under way, the United Nations will enter into guaranteed maximum price contracts with its current construction manager, Skanska, or, at its choosing, with any other construction firm that offers better value, for parcels of the total construction works. Entering into guaranteed maximum price contracts will be at the option of the United Nations. A guaranteed maximum price is the ceiling price for each parcel of work beyond which the United Nations is not obligated to compensate the construction manager. However, changes made by the United Nations to the scope of works or schedule during a contract would probably result in a need to increase the guaranteed maximum price. This is further discussed in paragraphs 35 and 36 below.

21. It is estimated that there will be around 30 of these contracts. For each guaranteed maximum price contract, the construction manager will procure the services of a number of trade contractors for elements of the work. The United Nations will not be a party to these trade contracts. The construction manager will use its own forms of contract, and trade contracts will be between the construction manager and the trade contractors.

2. Application of United Nations regulations and rules to the capital master plan: the need to avoid delays

22. It was a common observation from officials within the Office of the Capital Master Plan and other departments that the current rules and regulations were not designed to accommodate such major capital works as the capital master plan. Concern was expressed that the lengthy approval procedures required for procurement in case of contractual amendments might cause costly delays to the project schedule and consequential contractual claims. OIOS recognizes the need to avoid costly delays, and that rules to promote control could conflict with the stated principle of the United Nations of obtaining best value for money.

3. Actions taken to help avoid delays

23. The Executive Director has received support from senior management and has been proactive in promoting an expeditious decision-making culture. Times taken to issue change orders have been reduced from 16 weeks to 4 to 8 weeks. Also, the Under-Secretary-General for Management approved (initially for six months) an increase in the delegation of authority to the Chief of the Procurement Division in regard to amendments to contracts relating to the capital master plan that had a value of $2.5 million or less. This was subject to review on an ex post facto (retroactive) basis by the Headquarters Committee on Contracts. The Chairman of the Headquarters Committee on Contracts subsequently expressed concerns that the ex post facto reviews were not consistent with the requirements of financial rule 105.13 of the Financial Regulations and Rules of the United Nations.

24. On 25 February 2008, the Executive Director wrote to the Under-Secretary-General for Management and the Controller, as follows:

> As we move from design to construction, the scale of amendments will grow significantly. I recommend the extension of the expedited procurement process, but strongly recommend that the amount be increased from $2.5 million or less to $5 million or less per amendment.

The increase requested was based on the Executive Director's previous professional experience in relation to large projects and the pre-construction manager's projection of increasing procurement needs, and was subsequently approved by the Under-Secretary-General for Management on 11 March 2008.

25. Recognizing the need to maintain adequate internal control in the light of the requested increase and the representation from the Headquarters Committee on Contracts, the Controller, on 3 March 2008, formally requested OIOS to conduct a periodic review of the processes that lead to contractual amendments in order to address any potential weaknesses. OIOS replied on 20 March 2008, affirming that the 2008 risk-based audit workplan recognized the risks presented by procurement associated with the capital master plan and the high priority that should be given to the periodic audit of processes associated with contractual amendments. (For further information on the audit planning process and the 2008 audit workplan, see sect. III below.)

4. Actions needed: ex post facto reviews of contractual amendments, revised procedures to avoid delays and revisions to delegations of authority

26. It should be recognized that OIOS will not examine every contractual amendment or change order as a matter of routine audit procedure; this presented the Department of Management with the following alternatives in relation to internal control:

(a) Amend the scope of the Headquarters Committee on Contracts to include ex post facto reviews for the purpose of identifying any weaknesses in the process which would lead to contractual amendments. This would require a revision of rule 105.13;

(b) Institute an alternative procedure for conducting ex post facto reviews. OIOS is of the opinion that this would be the best option for the capital master plan.

27. The risk of delays, and the accompanying substantial extra costs, is a major risk to the successful outcome of the capital master plan. Decisions sometimes have to be taken quickly during construction and may require a contractual amendment or change order, with significant extra costs. Failure to make such decisions speedily would almost certainly result in delays to the execution of a contract, with likely contractual claims and consequential effects upon interdependent contracts. Under current procedures, all contractual amendments are referred to the Procurement Division for approval before they can be made. A more flexible approach, allowing the Executive Director to authorize change orders within a contingency of up to, say, 10 per cent of the guaranteed maximum price with the cost of any single change order not to exceed a predefined monetary level, should significantly reduce the risk of delays. It would be possible to adopt this way of working within the existing United Nations governance framework as the contingency would be pre-approved by the Procurement Division.

28. The Controller has emphasized the need for adequate control to be exercised over the contingency sums, especially because the budget is under extreme pressure. Expected controls would include professional advice being taken as required (probably from the consultant programme managers) and accurate records being kept of how the contingency sums were spent and justification for that expenditure. If accepted, the new proposed procedure for conducting ex post facto reviews (see para. 26 (b) above) would apply for the larger contractual amendments and change orders (over $200,000) covered by contingency sums. This proposal balances the need for control and accountability with the stated principle of obtaining best value for money.

29. While not of the same high priority as the previous proposed actions, it may also be appropriate to increase the amounts that procurement staff employed full time on the capital master plan are authorized to approve, which currently stand at $50,000 or $75,000, depending on the grade of the staff member concerned. This would promote a culture of timely, day-to-day approvals being given by the procurement staff most knowledgeable in regard to the capital master plan.

5. Role of the construction manager

30. As discussed in paragraphs 20 and 21 above, the construction manager will procure the services of trade contractors. The trade contracts will be between the construction manager and the trade contractors. Therefore, the United Nations is a

party to the guaranteed maximum price contracts with the construction manager, but not to the trade contracts.

31. The construction manager is an international firm which agrees and aspires to the principles expressed in the United Nations Global Compact. The construction manager will pre-qualify contractors for their suitability to bid for capital master plan works. The websites of the United Nations capital master plan and the Procurement Division, as well as the construction manager's capital master plan website, are hyperlinked to one another. Forthcoming contracts with an estimated value exceeding $50,000 are posted on the construction manager's website, and are easily accessible through the hyperlinks on the capital master plan and Procurement Division websites, through which expressions of interest are invited from potential contractors. There are instructions on how an interested firm should apply for pre-qualification registration. The United Nations will have the right to reject or request the inclusion of firms, if appropriate.

32. In the view of OIOS, it is not appropriate to impose all of the requirements of the *United Nations Procurement Manual* upon the construction manager. For example, the Procurement Manual requires 25 bidders for contracts estimated to exceed $5 million, 20 bidders for contracts of between $1 million to $5 million, and 15 bidders for contracts ranging from $200,000 to $1 million. This does not conform with normal construction practice which requires fewer bidders. However, the construction manager has assured the Office of the Capital Master Plan that the underlying principles contained in the Procurement Manual will be adhered to. As at the end of April 2008, procurement procedures had been drafted by the construction manager; they will be incorporated in the project manual when they have been approved by the Procurement Division.

6. Vendors from developing countries: a plan should forecast procurement opportunities

33. The General Assembly has requested the Secretary-General to ensure that, in the implementation of the capital master plan, procurement opportunities are increased for vendors from developing countries and countries with economies in transition. It will not be possible for the labour elements of contracts to be undertaken by overseas vendors because of the tight regulation of the New York construction industry and the influence of United States labour and unions. However, some materials might come from emerging markets, and the curtain wall was given as an example where this might be practicable. A foreign supplier could ally itself with a New York partner which would carry out the installation. It was further stated that, for large procurements, the United Nations has commenced sending letters to permanent missions of Member States, notifying them of upcoming works requiring expressions of interest.

34. Although action has been initiated to comply with the request of the General Assembly, the Office of the Capital Master Plan has not yet documented a specific action plan and has not requested the construction manager to produce one. Such a plan would forecast possible procurement opportunities for vendors from developing countries and countries with economies in transition, and specify the necessary actions and time frames.

D. Budgetary and financial control issues

35. There will not be a single guaranteed maximum price for the entire construction works from the outset. It would not have been practicable to seek guaranteed maximum price bids for the entire project because contractors would not have been able to quantify uncertainties over the lengthy duration of the project. Contractors would not have been able to accept such a major risk, or would have imposed punitive prices. Construction will be organized within the context of around 30 individual guaranteed maximum price contracts between the United Nations and the construction manager.

36. The risk that the sum total of the guaranteed maximum prices of all trade contracts could exceed the budget should be understood by all stakeholders. The construction manager will aim to mitigate this risk by identifying areas of the capital master plan in which value engineering techniques can be applied. Value engineering is the process of reviewing the objectives of the project and actual design work, and finding ways of achieving the same objectives at a lower cost.

37. The figures in table 1 are extracted from the status report prepared by the consultant programme managers for the period ended 31 March 2008. They do not take into account projected savings from the recent value engineering exercise, which will not be reflected until the drawings have been revised.

Table 1
Extract from the status report for the period ended 31 March 2008

	Estimated final costs as at 31 March 2008 (United States dollars)
Renovation	
Construction	964 624 672
Contingencies	170 865 668
Professional fees and management costs	262 891 928
Forward pricing escalation	277 523 593
Subtotal	**1 675 905 861**
Swing space	
Office	277 841 744
Library	2 714 066
Conference	110 347 954
Contingency	0
Subtotal	**390 903 764**
Rounding to align with reporting figures	375
Estimated total project final costs	**2 066 810 000**
Approved budget for capital master plan	**1 876 700 000**
Projected overexpenditure	**190 110 000**

38. The projected overexpenditure and shortfall in funding therefore is $190,110,000, which is the difference between the approved budget and the most recent estimated total project final costs. However, there will be some variance between these figures because of the following factors that are currently not possible to fully quantify:

(a) Applying value engineering techniques should give opportunities for cost savings. *The Office of the Capital Master Plan stated that the cost impact of the value engineering decisions has not yet been reflected in an estimate of revised design work. This estimating effort is under way, and is projected to exceed $100 million. Efforts will continue to increase opportunities for cost savings*;

(b) Potential additional costs for blast protection;

(c) Contractual amendments that are under review or may be forthcoming;

(d) Decisions still have to be taken by the General Assembly on associated costs to the capital master plan and their treatment (see paras. 41-42 below).

39. Given the current level of projected overexpenditure, it will be a major challenge to bring the capital master plan back within budget. There will be a limit to the cost reductions to be gained by value engineering. There is a risk that applying value engineering too rigorously could impact adversely on the planned functionality or whole-life costs of the building.

40. The Office of the Capital Master Plan has adopted a risk management approach. A risk register has been compiled by the consultant programme managers and risks are reviewed at periodic meetings. To further enhance the risk management approach and the maintenance of the project risk register, the consultant programme managers could provide a separate schedule of risks and their probable outcomes and cost implications as part of the monthly summary. In this way, management would be better apprised of the projected expenditure in relation to the approved budget.

41. There are a number of costs which are referred to as associated costs, that is, costs that are not budgeted and managed by the Office of the Capital Master Plan. The report of the Secretary-General on associated costs related to the capital master plan (A/62/799) estimated the associated costs related to the capital master plan at $193,751,700 for the period 2008-2013. The report has not yet been taken up by the Fifth Committee because of the need to focus on other time-sensitive issues but is expected to be considered by the General Assembly at its sixty-third session. The Secretary-General wrote to the President of the General Assembly on 5 June 2008, stating that he intended to enter into limited commitments for associated costs for the balance of 2008 pending the review of the full proposals by the Advisory Committee on Administrative and Budgetary Questions and the Fifth Committee during the main part of the sixty-third session of the General Assembly. The Secretary-General identified $9.5 million of associated costs related to the capital master plan through to the end of 2008. OIOS fully supports the action taken by the Secretary-General in the interest of avoiding slippage in the capital master plan.

42. Associated costs should be funded by departmental budgets as they will be managed by departments that are independent of the capital master plan. For example, current broadcasting equipment is obsolete and its replacement was deferred. This was because the installation of new equipment could not be justified

in advance of the execution of the capital master plan. It will probably not be possible to absorb all of these associated costs within the current capital master plan project. Some of the required expenditures, such as for security, are now on the capital master plan's critical path, and the situation needs to be managed so that necessary funds can be committed from the appropriate departmental budgets when required. *The Office of Programme Planning, Budget and Accounts reported that a special subfund, entitled Capital Master Plan Associated Costs, has been established and that the first set of allotments have been issued. This will facilitate separate recording and accounting of expenditure relating to associated costs.*

E. Other issues identified by the audit

1. Project manual should be completed

43. The agreement with the construction manager requires that a project manual be prepared. At the end of April 2008, some of the procedures to be included in the manual had not been finalized or approved; however, work on the project manual is nearing conclusion. OIOS considers the manual to be a key control document and it is important that it be completed expeditiously and kept up to date in accordance with the agreement.

2. Need to identify and monitor a range of performance indicators

44. The consultant programme managers produce a status report each month. The capital master plan team is working with the consultant programme managers to have the report produced in a revised format, with key financial and schedule performance indicators clearly stated. OIOS endorses the need for this as an important source of management information which can be used for trend analysis.

45. It is important to clearly incorporate such indicators, as construction commences, into a periodic report and monitor them closely. This enables tangible achievements (or shortfalls) to be reported to the most senior levels of management and aids post-construction review. It also enables tactical changes if the project managers need to initiate actions to ensure that objectives are achieved. In addition to expenditures, it would be useful to monitor value engineering savings, the percentage of professional fees against construction costs, and sustainability targets, such as projected comparative fuel and water consumption. Although this reporting was taking place, the format could be made more suitable for senior management purposes.

3. Stakeholder involvement

46. Stakeholders in the capital master plan include everyone affected by the project, from planning to completion: Member States, members of the capital master plan team, staff who will occupy swing space, end-users, neighbouring businesses and institutions, commuters, construction workers, emergency services and many others. The successful outcome of a project can be compromised if stakeholders are not managed effectively. The Executive Director has made efforts to address staff concerns at meetings and information has been made available through United Nations internal communications, including the Intranet. Press statements have also been issued periodically.

47. *The Office of the Capital Master Plan provided the following examples of the communications and public outreach activities that it has undertaken:*

(a) *The Office of the Capital Master Plan maintains a website that provides information on the project for all internal and external stakeholders. Monthly articles are also published and archived on the United Nations Internet webpage, iSeek;*

(b) *Since the submission of the most recent annual report to the General Assembly, three town hall meetings have been held. The capital master plan has also been on the agenda of numerous departmental town hall meetings;*

(c) *Other arrangements for internal stakeholders, including assisting in orientation programmes for new staff; coordination with client departments and briefing the Headquarters Committee on Contracts;*

(d) *Effective liaison with and provision of information to, for example, Member States, community groups, the architectural and construction community and local managing agents for major apartment complexes;*

(e) *Relationships with the media are considered a priority. Since the submission of the most recent annual report to the General Assembly, the Executive Director has appeared before the United Nations press corps three times, and has responded to almost 80 requests for interviews or information;*

(f) *Presentations on sustainability have been made to key audiences from the construction industry and the architectural community.*

48. It is apparent that some stakeholder issues would have been better resolved at an earlier stage. OIOS was advised that stakeholders sometimes have not appreciated the need to act and that the senior management of some departments lost focus in carrying out their supporting roles because of changes to the project strategy and schedule. As a result, some decisions are now on the critical path and this would not have been the case if there had been more urgency earlier on. For example, at the end of April 2008, final decisions had not been taken as to which departments and offices would be moving to which locations. *The Office of the Capital Master Plan stated that certain decisions had been made regarding departmental moves prior to the accelerated strategy IV, as approved in December 2007 (e.g., Information Technology Services Division move to Long Island City, Department for General Assembly and Conference Management move to the Albano Building on 46th Street). However, the new accelerated strategy IV required additional extensive planning and programming, as well as decision-making. Furthermore, United Nations department composition and headcounts are a moving target. In the circumstances, making such decisions on a just-in-time basis has merit.*

49. A stakeholder management plan to identify stakeholders, their aspirations and how the project is addressing them has not yet been prepared.

III. Strategy to provide effective audit coverage of the capital master plan

50. OIOS has appointed two qualified auditors to the positions of Section Chief and Internal Auditor in the Capital Master Plan Audit Section. Both of these auditors are dedicated full-time to auditing the capital master plan operations.

A risk-based auditing approach is being adopted

51. In January 2008, discussions were held with the Executive Director, senior members of his team and other senior United Nations staff whose responsibilities will affect the outcomes of the capital master plan. Information was gathered and used to undertake a comprehensive risk assessment. This enabled OIOS to gain an understanding of existing organizational relationships, risks, controls and process issues. OIOS also reviewed the risk register that had been independently prepared by the Office of the Capital Master Plan.

52. Based on this risk assessment exercise, 93 risks were identified and entered into the OIOS risk register. Each risk was assessed as being of higher, moderate or lower risk, based on its perceived likelihood and impact.

53. The overall risk assessment for standard focus areas identified by OIOS is given in table 2. It is important to acknowledge that the risks are assessed as being generally high for the capital master plan owing to its complexity and high value, and the high impact that the Organization would suffer if any of the risks actually materialized. This is not a reflection on the efforts made by the Office of the Capital Master Plan to mitigate the risks. OIOS has not yet fully assessed the effectiveness of mitigation measures already in place, as this will be achieved through implementing the internal audit workplan.

Table 2
Assessed risk for focus areas

Focus area	*OIOS assessment of level of risk*
Strategic management and governance	Higher risk
Financial management	Higher risk
Procurement and contract administration	Higher risk
Logistics management	Higher risk
Programme and project management	Higher risk
Property and facilities management	Higher risk
Safety and security	Higher risk
Information technology management	Moderate risk
Conference and documents management	Moderate risk
Human resources management	Moderate risk

Major risks identified by the Office of Internal Oversight Services

54. Within a complex environment, most major risks relate to money, decision-making and delays. These three major risk areas are very much interlinked. Some representative major risks and measures and circumstances that may mitigate them are presented in table 3.

Table 3
Major risks that have been identified and are representative for the project[a]

Level of risk	*Description of risk*	*Mitigation*
Higher	Lengthy United Nations procedures may delay the project	Executive Director appointed; Secretary-General support; construction manager
Higher	Procurement process may create delays in the schedule and lead to cost overruns	Capital master plan staff undertake early planning, recognizing the time needed for the procurement process; procurement staff dedicated full-time to capital master plan; increased delegation to the Chief of the Procurement Division
Higher	Sum of guaranteed maximum price contracts may exceed the budget	Value engineering; global estimates; stringent cost control; project management
Higher	Expanding scope and ever-changing requirements and expectations	Contracts demand design to budget
Higher	Reputation of the United Nations at risk if construction activities upset the community or other stakeholders	Stakeholder management plan to be prepared; press releases; consultants; proactive approach
Higher	Restriction on regular working hours could have an adverse effect on programme and construction flexibility. Claims for delay may result	Scheduling; Secretary-General support; stakeholder management
Higher	External market forces could cause budget to be exceeded or objectives of the project could be compromised	Tracking and review by construction manager; Executive Director; consultants
Higher	Unforeseen technical problems could arise with consequences for cost and programme	Surveys and testing
Moderate	Conflicting considerations among budget, preservation, sustainability and security may compromise outcome	Value engineering; specialist and coordinating meetings
Moderate	Fraud and corruption	Contractual terms; audit; consultants

Level of risk	*Description of risk*	*Mitigation*
Moderate	The General Assembly requirement that the project engages with the emerging markets may not be fully satisfied	Construction manager; Member States; websites
Moderate	Non-compliance with archives and retention policies at the departmental level may result in the loss of historical records or a loss of confidentiality	Stakeholder management plan; Intranet
Moderate	Late payments from Member States may create a cash flow problem	Approved use of letter of credit

[a] Security risks are excluded.

A risk-based audit workplan has been prepared

55. The risk register was used to produce a risk-based audit workplan. The workplan covers the three-year period from 2008 to 2010 and aims to ensure that audits are directed towards areas that have been assessed as priorities in achieving the objectives of the capital master plan. These are usually areas with risks that may result in delays or cost escalations. Some audit areas may be repeated in more than one year because of the ongoing nature of the activities being audited, and the level of risk perceived by OIOS. Table 4 presents the audit workplan for 2008.

Table 4
Audit workplan for the capital master plan, 2008

Assignment	*Risks addressed*
Risk assessment of the capital master plan	Identification of risks associated with the capital master plan to enable the preparation of the risk-based audit workplan
Comprehensive audit of capital master plan	Mandated by the General Assembly to cover overall structure and procedures and associated risks
Audit of swing space document management	Non-compliance with archives and retention policies at the departmental level may result in the loss of historical records or loss of confidentiality
Audit of project budgeting and financial control processes	Budgetary provision may not be adequate. System for monitoring costs may not provide necessary management information. Payments may not reflect deliverables, or may not be authorized, correct and timely. Late payments from

Assignment	*Risks addressed*
	Member States may create a cash flow problem. The sum of guaranteed maximum price contracts may exceed the budget
Audit of contract management (trade contracts)	Trade contracts may not be well controlled and deliverables may not comply with time and quality requirements. The sum of guaranteed maximum price contracts may exceed the budget
Audit of the value engineering process	Value engineering processes may result in project objectives being compromised. Conflicting considerations among budget, preservation, sustainability and security may compromise outcome.
Audit of provision of alternative offices, storage and other facilities	Swing space and interim arrangements may not offer adequate facilities for the continuation of United Nations activities in New York
Audit of security provisions applied to staff, site and assets during the execution of the capital master plan	Security risks
Audit of the approach to reducing energy consumption	Energy consumption may not reflect United Nations objectives. (This addition to the original workplan was initiated because of current unpredictable energy costs and the aim of the United Nations to reduce dependence on fossil fuels)

56. OIOS is confident that the actions taken will ensure effective audit coverage of the capital master plan in the short term. As the project proceeds further into the construction phases, it will be necessary to reassess the audit resources required for continuing to provide an adequate level of oversight. Internal audit reports related to the implementation of the capital master plan will be submitted to the General Assembly in accordance with its resolution 62/87.

IV. Recommendations

Recommendation 1

57. The Office of the Capital Master Plan should prepare a formal succession plan to ensure continuity in the capital master plan leadership in the event that the

incumbent Executive Director does not remain in the post until the conclusion of the project.

58. *The Office of the Capital Master Plan accepted recommendation 1.*

Recommendation 2

59. The Office of the Capital Master Plan should ensure that its managers maintain close liaison with the procurement officers to enable them to improve procurement planning, and to adopt a strategic approach. To help facilitate this, a procurement officer should attend the meetings held to discuss the monthly status reports prepared by the project management consultants.

60. *The Office of the Capital Master Plan accepted recommendation 2.*

Recommendation 3

61. The Controller, in consultation with the Executive Director, should appoint a representative to attend the coordination meetings held to discuss the monthly status reports prepared by the project management consultants.

62. *The Office of Programme Planning, Budget and Accounts and the Office of the Capital Master Plan accepted recommendation 3 and reported that action had been taken to implement the recommendation.*

Recommendation 4

63. The Office of the Capital Master Plan should identify the consequences of any further changes of project strategy and scope, including related contractual amendments, and justify changes using the best available cost-benefit estimates. The Executive Director should also make a concerted effort to keep changes in strategy and scope to a minimum, with the support of other major stakeholders.

64. *The Office of the Capital Master Plan accepted recommendation 4.*

Recommendation 5

65. The Department of Management should, in the absence of ex post facto reviews by the Headquarters Committee on Contracts, set up a committee that will carry out an ex post facto review of capital master plan contractual amendments and change orders priced at over $200,000 for the purpose of identifying any related weaknesses in the process.

66. *The Office of Programme Planning, Budget and Accounts accepted recommendation 5 and stated that the exact modalities and terms of reference of the proposed committee would need to be developed to ensure that internal control measures were in place.*

Recommendation 6

67. The Controller should authorize a procedure whereby requisitions for the procurement of individual guaranteed maximum price contracts would include a separate contingency amount. The Executive Director should then be delegated to authorize contractual amendments and change orders costing up to that pre-approved amount.

68. *The Office of Programme Planning, Budget and Accounts accepted recommendation 6 and stated that the exact procedure, including the level of the contingency amounts, would need to be developed to ensure that internal control measures were in place.*

Recommendation 7

69. If the Controller authorizes a procedure that allows contingency amounts for individual guaranteed maximum price contracts, then the Executive Director of the Office of the Capital Master Plan and his team, in consultation with the Procurement Division, should document and implement stringent controls over those amounts.

70. *The Office of the Capital Master Plan and the Office of Programme Planning, Budget and Accounts accepted recommendation 7.*

Recommendation 8

71. The Controller should consider increasing the delegated authorities of the procurement staff assigned to the Office of the Capital Master Plan.

72. *The Office of Programme Planning, Budget and Accounts accepted recommendation 8 and stated that new levels of procurement authority for all procurement staff at Headquarters, including staff members assigned to the capital master plan, were under consideration.*

Recommendation 9

73. The Office of the Capital Master Plan should ensure that the construction manager, in consultation with the Procurement Division, prepares an action plan to promote possible procurement opportunities for contractors or vendors from developing countries and countries with economies in transition.

74. *The Office of the Capital Master Plan accepted recommendation 9.*

Recommendation 10

75. The Office of the Capital Master Plan should ensure that the construction manager finalizes the project manual as soon as possible, and ensure that it is kept up to date as the project proceeds.

76. *The Office of the Capital Master Plan accepted recommendation 10.*

Recommendation 11

77. The Office of the Capital Master Plan should ensure that the consultant programme managers provide a separate schedule of risks and their probable outcomes and cost implications as part of the monthly summary report.

78. *The Office of the Capital Master Plan accepted recommendation 11.*

Recommendation 12

79. The Office of Programme Planning, Budget and Accounts, in coordination with the relevant departments and advice from the Office of the Capital Master Plan, should identify and monitor all associated costs to ensure that adequate funding continues to be available for the duration of the capital master plan. They should

also determine which associated costs should be attributed to the capital master plan project, as opposed to those costs which should be funded from regular departmental budgets.

80. *The Office of Programme Planning, Budget and Accounts stated that recommendation 12 had been overtaken by events and should thus be withdrawn. The issue of associated costs had been addressed in the report of the Secretary-General on associated costs related to the capital master plan (A/62/799).* OIOS agrees that the issue is addressed in that report, but it has not yet been fully considered and subjected to scrutiny by the General Assembly. The initiative taken by the Secretary-General is considered an interim measure, pending review by the General Assembly. Recommendation 12 is also consistent with the approach outlined in the report of the Secretary-General.

Recommendation 13

81. The Office of the Capital Master Plan should establish key performance targets and monitor them as construction continues. Examples could include: financial targets, such as expenditures against budget; value engineering savings; percentage of professional fees against construction cost; and sustainability targets, such as projected comparative fuel and water consumption.

82. *The Office of the Capital Master Plan accepted recommendation 13.*

Recommendation 14

83. The Office of the Capital Master Plan should prepare a stakeholder management plan to identify the project stakeholders, define an approach to communications and provide key project information. Furthermore, the Executive Director and his team, in consultation with the Department for Public Information, should closely manage local community and host city expectations and concerns that could affect renovation progress.

84. *The Office of the Capital Master Plan accepted recommendation 14.*

(*Signed*) Inga-Britt **Ahlenius**
Under-Secretary-General for Internal Oversight Services